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Message Text

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20
ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 INR-11 NSAE-00 PA-04

RSC-01 USIA-15 PRS-01 SP-03 AID-20 EB-11 NSC-07

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 COME-00

FRB-03 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 DRC-01 /161 W
---------- 052972
R 280117Z SEP 74
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 4026

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E.O. 11652: N/A
TAGS: EFIN MX
SUBJ: MEXICAN ECONOMIC POLICY.

REF: A-MEXICO A-431; B-MEXICO 7884.

1. TWO MAJOR PARTS OF GOM'S ANTI-INFLATION PROGRAM ARE IN FINAL STAGES OF PREPARATION AND SHOULD BE ANNOUNCED WITHIN NEXT FEW WEEKS. ONE IS TAX REFORM WHICH APPEARS TO BE CAUSING FEW COMPLAINTS, IN PART BECAUSE IT IS HEAVILY ORIENTATED TOWARD WEALTHY INDIVIDUALS. SECOND IS EXTENSION OF PRICE CONTROLS WHICH IS AROUSING UNUSUAL PUBLIC CRITICISM FROM BUSINESS SECTOR. REFORMS TAKING PLACE AGAINST BACKGROUND OF 22 PERCENT WAGE SETTLEMENTS WHICH ARE EXPECTED TO HAVE SIGNIFICANT INFLATIONARY IMPACT OVER NEXT FEW MONTHS.

2. FINAL DECISIONS ON TAX REFORM MEASURES ARE EXPECTED FOLLOWING FINANCE MINISTER'S RETURN FROM WASHINGTON. THEY SHOULD BE INTRODUCED IN CONGRESS WITHIN SEVERAL WEEKS, TO BE EFFECTIVE JANUARY 1. THEY WILL INCLUDE NEW OR HIGHER TAXES ON GASOLINE, RESTAURANTS, WINES AND LIQUOR, MORE EXPENSIVE AUTOS, TOBACCO, AIRPLANES, PLEASURE BOATS, MOTOR CYCLES, PERFUMES AND SOME CLOTHES. HIGHEST MARGINAL RATE ON PERSONAL INCOME WILL INCREASE FROM 42 TO
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50 PERCENT. URBAN PROPERTY ASSESSMENTS WILL BE REVIEWED AND

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INCREASED. TAXES ON BUSINESS AND AGRICULTURE WILL NOT BE INCREAS-
ED. NO ESTIMATE YET AVAILABLE ON ADDITIONAL REVENUE. GOM PUB-
LICIZING ITS INTENT TO LEVY THESE NEW OR HIGHER TAXES AND NO
SERIOUS OPPOSITION HAS DEVELOPED NOR IS ANY EXPECTED.

3. GOM WAS TO ANNOUNCE A BROADER AND "MORE SUPPLE" PRICE CONTROL
SYSTEM THIS WEEK, BUT IT APPEARS TO BE DELAYED DUE TO BUSINESS
OPPOSITION. LEGISLATION DATING TO 1951 PERMITS MINISTRY OF COMMERCE
AND INDUSTRY TO SET MAXIMUM WHOLESALE PRICES FOR FOOD PRODUCTS,
ESSENTIAL RAW MATERIALS, SOME CLOTHING, AND INDUSTRIAL PRODUCTS.
AMONG PRICES NOW CONTROLLED ARE THOSE FOR BASIC FOODSTUFFS,
TEXTILES, AND SOME CONSUMER ITEMS. GOM WANTS TO EXTEND LIST TO
86 DIFFERENT LINES OF GOODS WHICH WILL COVER THOUSANDS OF INDIV-
IDUAL PRODUCTS. GOM RECOGNIZES THAT PRICE INCREASES WILL BE
NECESSARY AND STATES THAT ITS INTENTION IS NOT TO REDUCE PROFITS,
BUT TO PREVENT SPECULATION BY BASING PRICES ON "REAL COSTS".
UNDER PROPOSED SCHEME BUSINESS CAN PETITION FOR PRICE INCREASES
AND IF NO OBJECTION RECEIVED WITHIN 60 DAYS CAN IMPLEMENT
INCREASES. BUSINESS GROUPS ARE ENGAGED IN DISCUSSIONS WITH
COMMERCE AND INDUSTRY MINISTRY ON DETAILS OF PROGRAM, AND HAVE
TAKEN USUAL STEP OF PLACING FULL PAGE ADS IN NEWSPAPERS CRITIC-
IZING PROGRAM. ADS SAY THAT BUSINESS IS BEING BLAMED FOR INFLA-
TION BUT HAS HAD TO LIVE WITH TIGHT CREDIT AND HIGHER SALARIES,
THAT PROPOSED SYSTEM WILL NOT STOP OR REDUCE INFLATION, THAT IT
CONFUSES CAUSES AND EFFECTS OF INFLATION AND THAT IT COULD HAVE
A NEGATIVE IMPACT ON INVESTMENT AND INCREASED PRODUCTION. SOME
GOM OFFICIALS HAVE SAID PRIVATELY THAT THE SYSTEM WOULD NOT BE
EFFECTIVE, BUT THAT IT IS NECESSARY FOR POLITICAL REASONS.
PUBLIC STATEMENTS OF GOM OFFICIALS INDICATE CONCERN OVER IMPACT
OF INFLATION ON LOWER INCOME GROUPS AND PRICE CONTROL SCHEME IS
APPARENTLY VIEWED AS A MEANS TO DEMONSTRATE THEIR CONCERN EVEN
IF IT RESULTS IN SOME PRICE INCREASES AND/OR IS NOT EFFECTIVE
AT RETAIL LEVEL. CONCERN OF BUSINESS GROUPS APPEARS TO REFLECT
THEIR INCREASING DISTRUST OF PRESENT ADMINISTRATION AND A LACK
OF CONFIDENCE THAT GOVERNMENT WOULD ADMINISTER PROGRAM WITH THE
SUPPLENESS THEY ARE PROMISING.

4. NEW POLICIES ARE BEING DISCUSSED IN CONTEXT OF WIDESPREAD
CONCERN OVER INFLATIONARY IMPACT OF WAGE SETTLEMENT GUIDELINES
(SEE REF B.) WHICH ARE RESULTING IN WAGE INCREASES OF ABOUT 22
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PERCENT. COST TO GOM OF INCREASE FOR GOVERNMENT EMPLOYEES EST-
IMATED AT OVER 9 BILLION PESOS ANNUALLY. COST TO BUSINESS ESTI-
MATED TO BE 50-60 BILLION PESOS ANNUALLY. SHORT-TERM IMPACT ON
PRICES ESTIMATED TO BE AT LEAST 5 PERCENT. CONSUMER PRICE INDEX
INCREASE DURING YEAR NOW EXPECTED TO EXCEED 20 PERCENT COMPARED
TO EARLIER GOAL OF 15 PERCENT.
JOVA

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